

Financial Statements  
and Supplemental Information

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

*Year ended June 30, 2005  
with Report of Independent Auditors*

---

Board of Education

Jeff Leinweber	President
Michael Mandich	Vice President
Brenda Kretzschmer	Secretary
Deborah Quick	Treasurer
Terry Muntz	Trustee
Loretta Schmidt	Trustee
Kathy Champagne	Trustee

---

Administration

Dana Compton	Superintendent
--------------	----------------

Owendale-Gagetown Area School District  
Huron Tuscola Counties, Michigan

Basic Financial Statements,  
Required Supplemental Information  
and Other Supplemental Information

Year ended June 30, 2005

**Table of Contents**

Report of Independent Auditors.....	1
Management's Discussion and Analysis.....	3
Government - Wide Financial Statements:	
Statement of Net Assets .....	10
Statement of Activities.....	11
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	12
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds .....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	14
Fiduciary Fund Financial Statements:	
Agency Funds - Statements of Fiduciary Net Assets.....	15
Notes to Financial Statements.....	16
Required Supplemental Information:	
General Fund - Budgetary Comparison Schedule.....	30
Other Supplemental Information:	
Combining Balance Sheet - Nonmajor Governmental Funds.....	31
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds .....	32
General Fund - Balance Sheets .....	33
General Fund - Statements of Revenues, Expenditures, and Changes in Fund Balance.....	34
General Fund – Detail of Expenditures and Other Financing Uses .....	35
Special Revenue Funds - Balance Sheets .....	39
Special Revenue Funds - Statements of Revenues, Expenditures, and Changes in Fund Balance.....	40
Debt Retirement Funds – Combined Balance Sheets .....	41
Debt Retirement Funds - Combining Statements of Revenues, Expenditures and Changes in Fund Balance .....	42
Internal Accounts – Summary of Cash Receipts and Cash Disbursements .....	43
Internal Accounts – Recap by Fund.....	44
Schedule of 1976 Bonded Debt .....	45
Schedule of 1996 Energy and Conservation Improvement Bonds .....	46
Schedule of 1999 Bonded Debt .....	47



## Report of Independent Auditors

Board of Education  
Owendale-Gagetown Area School District  
Owendale and Gagetown, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Owendale-Gagetown Area School District (District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Owendale-Gagetown Area School District as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005 on our consideration of Owendale-Gagetown Area School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) and budgetary comparison schedule on pages 3 through 9 and page 30 are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Owendale-Gagetown Area School District's basic financial statements. The combining and individual nonmajor fund financial statements on pages 31 through 47 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Andrews Hooper & Pavlik P.L.C.*

Bay City, Michigan  
August 19, 2005

## ***Owendale-Gagetown Area School District Management's Discussion and Analysis***

This section of Owendale-Gagetown Area School District's (District) annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2005. This section should be read in conjunction with the District's financial statements.

### **Changes to the Annual Report**

Governmental Accounting Standards Board Statement No. 34 (GASB 34) requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

### **District-Wide Financial Statements**

The Statement of Net Assets is a district-wide financial statement. It includes all assets and liabilities of the District. This includes noncurrent assets and long-term liabilities. The noncurrent assets include all capital assets over the District's capital asset threshold of \$500. Capital assets are stated at cost less related accumulated depreciation. The long-term liabilities include the 1976 debt, 1996 debt, 1999 debt, unused sick time and early retirement incentives outstanding at year end.

The Statement of Activities is also a district-wide financial statement. It includes all expenses and revenues of the District. The expenses are categorized by function. Any categorical funds or charges for services are allocated to the expense function to which they relate. For instance, any Title I funds received for instructional services were allocated to the instruction function on the Statement of Activities. Any revenue not attributable to a function is added to the net (expense) revenue subtotal. The basis of the Statement of Activities is full accrual, which includes the accrual of interest expense.

### **Fund Financial Statements**

The fund financial statements are comparable to prior years' financial statements. The primary difference is that the general fixed asset group of accounts and the general long term debt are no longer reported. In addition, the fund statements are presented by major fund instead of fund type. To qualify as a major fund, the total assets, liabilities, revenues, or expenses of that individual governmental fund must be at least 10% of the corresponding total of all governmental funds combined. The District may report any other governmental fund as a major fund if it believes that the fund is important to the users of its financial statements.

All funds that are not reported as major are considered nonmajor funds. These funds are aggregated and presented in a single column.

The fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual. The revenues must be measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period.

***Owendale-Gagetown Area School District  
Management's Discussion and Analysis (continued)***

**Fund Financial Statements (continued)**

In fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. No liability is recorded for the unpaid portion of debt.

**Reporting of the District's Fiduciary Responsibilities**

The District has a fiduciary responsibility to its student activity and trust funds. The fiduciary activities are reported in separate statements of fiduciary net assets. The activity of the fiduciary activities is excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Summary of Net Assets**

The following summarizes the net assets for the fiscal years ended June 30, 2005 and 2004.

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
Assets:		
Current assets	\$1,039,681	\$1,177,989
Noncurrent assets, net of related depreciation	512,098	590,307
Total assets	1,551,779	1,768,296
Liabilities:		
Current liabilities	684,426	702,185
Noncurrent liabilities	157,745	243,457
Total liabilities	842,171	945,642
Net Assets:		
Invested in capital assets, net of related debt	247,098	245,307
Restricted for debt service	181,207	173,829
Unrestricted	281,303	403,518
Total net assets	\$ 709,608	\$ 822,654

***Owendale-Gagetown Area School District  
Management's Discussion and Analysis (continued)***

**Summary of Net Assets (continued)**

The Statement of Net Assets includes \$2,149,007 in capital assets at June 30, 2005 compared to \$2,278,289 in capital assets at June 30, 2004. The capital assets are classified as noncurrent assets as they are not liquid in nature. The liabilities include \$1,346 in accrued interest on long term debt and \$365,227 in long-term debt and compensated absences for the year ended June 30, 2005 compared to \$1,989 in accrued interest and \$449,812 in long-term debt and compensated absences for the year ended June 30, 2004. Of this long-term debt, \$207,482 is to be paid in the 2006-2007 year and is classified as current on the Statement of Net Assets. The District, at June 30, 2005, has a note payable of \$250,000 payable to the Michigan Department of Treasury due in August 2005. This note was outstanding at June 30, 2005 and 2004. The District had total net assets of \$709,608 and \$822,654 at June 30, 2005 and 2004, respectively, which is a decrease of 13.7%. Approximately 34.8% of the total net assets are invested in capital assets, net of related debt. In addition, another 25.5% is restricted for debt service. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations.

The \$281,303 in unrestricted net assets of governmental activities at June 30, 2005 represents the accumulated results of past years' operations as a whole; the District had \$403,518 in unrestricted net assets at June 30, 2004. This represents a decrease of 30.3%. The operating results of the General Fund will have a significant impact on the changes in unrestricted net assets from year to year.

**Summary of Statement of Activities**

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The following summarizes the statement of activities for the fiscal years ending June 30, 2005 and 2004:

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
Revenues:		
Program revenue:		
Charges for services	\$ 45,217	\$ 57,374
Operating grants	182,829	272,497
General revenue:		
Property taxes	245,708	163,780
State aid, unrestricted	1,587,911	1,581,421
Interest and investment earnings	9,774	4,918
Other	39,820	159,771
Total revenue	2,111,259	2,239,761
Function/Program Expenses:		
Instruction	1,324,473	1,368,935

***Owendale-Gagetown Area School District  
Management's Discussion and Analysis (continued)***

**Summary of Statement of Activities (continued)**

Supporting services	709,830	734,718
Food services	83,406	95,816
Athletics	73,360	23,258
Other services	1,394	-
Principals	-	2,485
School board	-	3,149
Interest on long-term debt	14,405	29,257
Depreciation (unallocated)	17,437	21,302
Total expenses	<u>2,224,305</u>	<u>2,278,920</u>
Change in net assets	<u>\$(113,046)</u>	<u>\$(39,159)</u>

Approximately 59.5% of the expenses are instructional in nature. This includes teaching expenses such as salaries, benefits and supplies. This does not include any capital outlay expenses such as computers or technology as these transactions are recorded in the Statement of Net Assets as noncurrent assets.

Approximately 31.9% of the expenses are related to supporting services. This includes transportation, operation and maintenance, counseling expenses, board of education expenses, and other supporting services.

The remaining 8.6% of the expenses consists of food services, athletics, community services (i.e. public library), interest on long-term debt, and unallocated depreciation.

As reported in the Statement of Activities, the cost of our governmental activities for the year ended June 30, 2005 was \$2,224,305 compared to \$2,278,920 for the year ended June 30, 2004, which is a decrease of 0.2%. Certain activities were partially funded from those who benefited from the programs through charges for services. This amounted to \$45,217 and consists of athletic receipts, revenues derived from the school meal program, School Board revenues and principal revenues. Other activities were partially funded by other governments and organizations that subsidized certain programs with grants and categorical funds. This amounted to \$182,829 and consisted primarily of federal funds used for a specific function. The remaining revenue of \$1,883,213 was funded by property taxes, unrestricted state aid, interest income, and other revenues.

The District experienced a \$113,046 decrease in net assets as a whole as compared to a decrease of \$39,159 for the year ended June 30, 2004. The decrease in net assets differs from the change in fund balance. A reconciliation between the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balance is included in the financial statements. The larger decrease in net assets is primarily a result of a decrease in revenue during the current year while expenditures remained consistent with prior year.



***Owendale-Gagetown Area School District  
Management's Discussion and Analysis (continued)***

**Analysis of the District's Governmental Fund Statements**

The District uses funds to help control and manage money for particular purposes. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures on the modified accrual basis of accounting. Government resources are allocated to, and accounted for, in the individual funds based upon the purpose for which they are to be spent. For instance, the General Fund is used to record the general operations of the District, pertaining to education and the supporting services that are necessary to provide educational services to the public. However, the debt service funds are used to account for money related to taxes collected specifically for paying the District's debt and interest.

In the General Fund, the District experienced a \$113,367 decrease in fund balance for the year ended June 30, 2005 compared to an increase of \$14,581 for the year ended June 30, 2004. This is due largely to a decrease in state aid revenue during the year as a result of a decline in the number of students attending the District. Overall, total expenditures were within 1.1% of the final budgeted amounts. Total revenues were 4.4% lower than anticipated. The sale of a building owned by the District was anticipated and included in the budget. However, this sale did not materialize.

The Special Revenue Fund had a decrease in fund balance of \$14,076 for the year ended June 30, 2005 compared to an increase of \$1,720 for the year ended June 30, 2004.

The District accumulates sufficient resources to pay annual bond issue-related debt service. The fund balance of the Debt Service Fund is reserved to finance the debt service obligations of the District. The General Fund transferred \$16,605 to the debt fund in order to help service debt.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget as it attempted to deal with changes in revenues and expenditures. Public Act 621 of 1978, Section 18(1) requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided as required supplemental information in these financial statements. Changes in the general fund original budget were as follows:

- Budgeted revenues were increased by \$125,756 as result of the expected sale of a building owned by the District at a cost of \$90,000; this sale, however, did not materialize. In addition, it was anticipated that state aid would exceed original budgeted amounts by approximately \$85,000. However, federal grants were anticipated to decrease by approximately \$37,000 from original budgeted amounts.
- Budgeted expenditures were decreased by \$28,289. No significant changes occurred between the preliminary budgeted amounts and the amended budgeted amounts.

***Owendale-Gagetown Area School District  
Management's Discussion and Analysis (continued)***

**General Fund Budgetary Highlights (continued)**

- Actual revenues were 4.4% lower than budgeted under the final budget. This was due largely to local sources being lower than anticipated as a result of the sale of a building owned by the District not materializing.
- Actual expenditures were 1.1% less than budgeted under the final budget.

**Capital Assets and Debt Administration**

**Capital Assets**

Under GASB 34, the District is required to classify capital assets over the District's capitalization threshold of \$500 as noncurrent assets and record the respective depreciation on the assets. At June 30, 2005, the District had \$2,149,007 invested in capital assets compared to \$2,278,289 for the year ended June 30, 2004. The amount represents a net decrease (additions less deletions) of approximately \$129,282 from last year.

	<b>2005</b>	<b>2004</b>
Land and improvements	\$ 158,989	\$ 223,811
Buildings and improvements	1,276,586	1,276,586
Vehicles and buses	208,166	234,916
Furniture and equipment	505,266	542,976
Total capital assets	<b>2,149,007</b>	2,278,289
Less: accumulated depreciation	<b>(1,636,909)</b>	(1,687,982)
Capital assets, net	<b>\$ 512,098</b>	\$ 590,307

The year's additions of \$8,500 included the purchase of a used bus from another District.

**Debt**

At the end of this year, the District had \$265,000 in bonds outstanding versus \$345,000 in the previous year. These bonds consist of the following:

	<b>2005</b>	<b>2004</b>
1976 Bonded Debt	<b>\$100,000</b>	\$100,000
1999 Bonded Debt	<b>150,000</b>	215,000
1996 Energy Improvement	<b>15,000</b>	30,000
Total debt	<b>\$265,000</b>	\$345,000

***Owendale-Gagetown Area School District  
Management's Discussion and Analysis (continued)***

**Economic Factors and Forecasts**

Our elected officials and administration consider many factors when determining the District's fiscal year budget. One of the most important factors affecting our budget is student counts. State aid is calculated on a blended September and February student count. The calculation uses 75% of the current year's fall count and 25% of the prior year's winter count. Therefore, the majority of our revenue is dependent on the Fall count. Since this factor is not known during May when we derive the fiscal year budget, this can cause major adjustments to our financial transactions. State aid accounts for approximately 82.7% of our total General Fund revenue. A drastic decrease in the winter count can have a negative impact on our total revenue. Our foundation allowance for the fiscal year ending June 30, 2006 will be maintained at the same level as the year ended June 30, 2005. This amount will be reevaluated by the state legislature during the year. Current economic conditions at the state level indicate that there may be a need to reassess this amount. A decline in enrollment for the September 2005 count will cause a decrease in our overall revenue as compared to the fiscal year ending June 30, 2005. Preliminary counts indicate a decline in the 2005 fall count as compared to the previous year.

We have received confirmation from the Michigan Department of Education that our federal revenue has been reduced for the fiscal year ending June 30, 2006 due to lower census poverty levels in our area.

Other factors, such as an increase in benefits are causing major constraints on our spending power. The health insurance premiums alone have increased significantly for the fiscal year ending June 30, 2006.

The Michigan School Business Official Organization (MSBO) recommends that a district maintain approximately 3 months of current expenditures in the fund balance of the General Fund. The District has slightly greater than 2 months of operations in the General Fund. This amount is below the minimum recommended by MSBO.

The District's 2006 budget indicates that fund equity will be used during the 2006 fiscal year to maintain current operations.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Statement of Net Assets

June 30, 2005

<b>Assets</b>	<b><u>Governmental Activities</u></b>
<b>Current assets</b>	
Cash and cash equivalents	\$ 668,306
Receivables:	
Due from other governmental units	366,163
Due from agency	3,724
Inventory	1,488
Total current assets	<u>1,039,681</u>
<b>Noncurrent assets</b>	
Capital assets	2,149,007
Less: accumulated depreciation	<u>(1,636,909)</u>
Total noncurrent assets	<u>512,098</u>
Total assets	<u>1,551,779</u>
<b>Liabilities and net assets</b>	
<b>Current liabilities</b>	
Accounts payable	14,751
Accrued salaries and benefits	183,397
Insurance payable	22,115
Accrued interest	5,260
Deferred revenue	1,421
Note payable	250,000
Bonds payable, due within one year	190,000
Compensated absences and early retirement incentives, due within one year	<u>17,482</u>
Total current liabilities	<u>684,426</u>
<b>Noncurrent liabilities</b>	
Bonds payable	75,000
Compensated absences and early retirement incentives	<u>82,745</u>
Total noncurrent liabilities	<u>157,745</u>
Total liabilities	<u>842,171</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	247,098
Restricted for debt service	181,207
Unrestricted	281,303
Total net assets	<u><u>\$ 709,608</u></u>

*See accompanying notes.*

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for	Operating	Activities
		Services	Grants	Net (Expense)
				Revenue and
				Change in Net
				Assets
Governmental Activities				
Instruction	\$ 1,324,473	\$ -	\$ 124,223	\$ (1,200,250)
Supporting services	709,830	-	-	(709,830)
Food services	83,406	28,060	58,606	3,260
Athletics	73,360	16,023	-	(57,337)
School services	1,394	1,134	-	(260)
Interest on long-term debt	14,405	-	-	(14,405)
Depreciation (unallocated)	17,437	-	-	(17,437)
Total governmental activities	\$ 2,224,305	\$ 45,217	\$ 182,829	(1,996,259)
General revenues:				
Taxes:				
Property taxes, levied for general operations				161,628
Property taxes, levied for debt service				84,080
State of Michigan aid				1,587,911
Interest and investment earnings				9,774
Other				39,820
Total general revenues				1,883,213
Change in net assets				(113,046)
Net assets:				
Beginning of year				822,654
End of year				\$ 709,608

See accompanying notes.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Balance Sheet  
Governmental Funds

June 30, 2005

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 488,949	\$ 179,357	\$ 668,306
Receivables:			
Due from other governmental units	355,843	10,320	366,163
Due from other funds	20,804	-	20,804
Due from agency	-	3,724	3,724
Inventory	-	1,488	1,488
Total assets	<u>\$ 865,596</u>	<u>\$ 194,889</u>	<u>\$ 1,060,485</u>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 14,751	\$ -	\$ 14,751
Accrued salaries and benefits	183,397	-	183,397
State Aid Note	250,000	-	250,000
Interest payable	3,914	-	3,914
Insurance payable	22,115	-	22,115
Deferred revenue	1,421	-	1,421
Due to other funds	-	20,804	20,804
Total liabilities	<u>475,598</u>	<u>20,804</u>	<u>496,402</u>
<b>Fund balances</b>			
Reserved for debt service	-	181,207	181,207
Unreserved, special revenue	-	(7,122)	(7,122)
Unreserved	389,998	-	389,998
Total fund balances	<u>389,998</u>	<u>174,085</u>	<u>564,083</u>
Total liabilities and fund balances	<u>\$ 865,596</u>	<u>\$ 194,889</u>	<u>\$ 1,060,485</u>
Total governmental fund balances			\$ 564,083
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds.			
The cost of the capital assets is:		\$ 2,149,007	
Accumulated depreciation is:		<u>(1,636,909)</u>	512,098
Long-term liabilities are due in future periods and are not reported in the funds			
Bonds payable			(265,000)
Compensated absences and early retirement incentives			(100,227)
Accrued interest on long term debt is not included as a liability in government funds			<u>(1,346)</u>
Net assets of government activities			<u>\$ 709,608</u>

See accompanying notes.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2005

	<b>General</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total</b>
<b>Revenues</b>			
Local sources	\$ 200,224	\$ 131,053	\$ 331,277
Intermediate sources	6,952	-	6,952
State sources	1,587,911	7,893	1,595,804
Federal sources	124,223	58,606	182,829
	<hr/>	<hr/>	<hr/>
Total revenues	1,919,310	197,552	2,116,862
<b>Expenditures</b>			
Instructional	1,283,520	-	1,283,520
Supporting services	700,354	-	700,354
School services	-	1,394	1,394
Food service	-	82,841	82,841
Athletics	-	68,167	68,167
Debt service	-	95,048	95,048
	<hr/>	<hr/>	<hr/>
Total expenditures	1,983,874	247,450	2,231,324
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	(64,564)	(49,898)	(114,462)
<b>Other financing sources (uses)</b>			
Operating transfers in	(48,803)	43,200	(5,603)
Total other financing sources (uses)	(48,803)	43,200	(5,603)
	<hr/>	<hr/>	<hr/>
Deficiency of revenues and other financing sources over expenditures and other financing uses	(113,367)	(6,698)	(120,065)
Fund balances at beginning of year	503,365	180,783	684,148
Fund balances at end of year	<u>\$ 389,998</u>	<u>\$ 174,085</u>	<u>\$ 564,083</u>

*See accompanying notes.*

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds  
to the Statement of Activities

Year ended June 30, 2005

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>(120,065)</b>
---------------------------------------------------------------	-----------	------------------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expenses	\$	(82,129)	
Capital outlay		<u>8,500</u>	(73,629)

Loss on disposal of fixed assets is reported as an expenditure in the Statement of Activities.			(4,580)
------------------------------------------------------------------------------------------------	--	--	---------

Decrease in accrued interest is reported as a reduction of expenditures in the Statement of Activities.			643
---------------------------------------------------------------------------------------------------------	--	--	-----

Repayments of bond principal is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces long-term debt).			80,000
-----------------------------------------------------------------------------------------------------------------------------------------------------	--	--	--------

Decreases in compensated absences and retirement incentives are reported as a reduction of expenditures in the Statement of Activities.			<u>4,585</u>
-----------------------------------------------------------------------------------------------------------------------------------------	--	--	--------------

<b>Net Change in Net Assets - Government-Wide Statement of Activities</b>	<b>\$</b>	<b><u>(113,046)</u></b>
---------------------------------------------------------------------------	-----------	-------------------------

*See accompanying notes.*



Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Agency Funds  
Statements of Fiduciary Net Assets

June 30, 2005  
(with comparative totals for June 30, 2004)

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash in bank - commercial account	<u>\$ 25,723</u>	<u>\$ 20,460</u>
<b>Liabilities</b>		
Due to student groups	\$ 21,999	\$ 18,129
Due to special revenue fund	<u>3,724</u>	<u>2,331</u>
	<u>\$ 25,723</u>	<u>\$ 20,460</u>

*See accompanying notes.*

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements

June 30, 2005

**1. Summary of Significant Accounting Policies**

The financial statements of Owendale-Gagetown Area School District (District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

The District follows GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Some of the provisions of the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and results of operations.
- Financial statements prepared using full accrual basis of accounting for all the District’s activities.
- A change in the fund financial statements to focus on major funds.

**A. Reporting Entity**

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America, the specific standards applied were GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Based upon the application of these criteria, the financial statements of the Owendale-Gagetown Area School District contain all the funds controlled by the District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the District nor is the District a component unit of another entity.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**B. Basic Financial Statements – Government-Wide Statements**

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

In creating the government-wide financial statements the District has eliminated inter-fund transactions.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

**C. Basic Financial Statements – Fund Financial Statements**

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund balance, revenues and expenditures. The various funds are reported by generic classification within the financial statements.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**C. Basic Financial Statements – Fund Financial Statements (continued)**

The following fund types are used by the District:

**Governmental Funds:**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net assets. The following is a description of the governmental funds of the District:

- A. General Fund** is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- B. Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- C. Debt Service Funds** are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

**Fiduciary Funds:**

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Nonexpendable trust funds are accounted for utilizing the accrual method of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the District holds for others in an agency capacity (primarily student activities).

The District's fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**D. Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Full Accrual**

Both governmental and business-type activities in the government-wide financial statements and fiduciary fund financial statements are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**State Foundation Revenue**

The State of Michigan has adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on a weighted average of pupil membership counts taken in February and September of 2004. Therefore, the number of students in the District has a significant impact on the foundation allowance. The District's weighted average pupil count decreased about 16 students, or 7.0%, from the previous year's count.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**D. Measurement Focus and Basis of Accounting (continued)**

**State Foundation Revenue (continued)**

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2004 to August 2005. Thus the unpaid portion at June 30 is reported as due from other governmental units. The local revenue is recognized as outlined under the caption Property Taxes in this note.

**State Categorical Revenue**

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

**Federal Revenue**

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**Assets, Liabilities, and Fund Balance**

**Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity. These statements also address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities, and Fund Balance (continued)**

**Deposits and Investments (continued)**

As an element of interest rate risk, the Statements require certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified are also disclosed. The District had no investments at June 30, 2005 other than those listed in the cash and cash equivalents deposit footnote.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union that is covered by federal deposit insurance; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**Short-Term Interfund Receivables and Payables**

During the course of operations, occasional transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School district property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mils</u>
General Fund - nonhomestead	17.7984
Debt Retirement - all properties	1.5000

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities, and Fund Balance (continued)**

**Inventory**

Inventory in the Special Revenue Fund consists of food and donated commodities (received as federal financial assistance from the U.S. Department of Agriculture (USDA), which were on hand at year-end. The commodities are valued at USDA suggested values. Inventories for commodities are recorded as revenue when received and expenditures when utilized.

**Capital Assets**

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land Improvements	20	years
Buildings and Improvements	20-50	years
Machinery and Equipment	5-20	years
Vehicles and Buses	8	years

**Accounts Receivable**

Management of the District considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided for. If amounts become uncollectible, they will be charged to operations in the period of uncollectibility.

**Compensated Absences**

Accumulated vacation and sick pay amounts and associated employee-related costs are accrued when earned. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.



Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities, and Fund Balance (continued)**

**Unemployment Insurance**

The District reimburses the Michigan Unemployment Agency (UA) for the actual amount of unemployment benefits disbursed by the UA on behalf of the District. Billings received for amounts paid by UA through June 30 are accrued.

**Deferred Revenue**

The unexpended balance of various state categorical grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred.

**Long-Term Obligations**

In the statement of net assets, the District reports long-term debt and other long-term obligations as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as an other financing source, net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

**Retirement Plan**

Substantially all of the District's employees participate in the Michigan Public School Employees' Retirement System as described in Note 7.

**Interfund Transactions**

Interfund activity is reported as either loans or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

**Fund Balance**

The unreserved and undesignated fund balances for governmental funds represent the amount available for budgeting future operations.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**1. Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Budgets and Budgetary Policies**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue, capital projects, and debt retirement funds. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to June 1, the Superintendent submits to the Board of Education a proposed operating budget by function for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them and is prepared on the basis of accounting used by the particular fund.
2. A public hearing is held in June to obtain taxpayer comments.
3. Prior to July 1, the budget is adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditure in violation of the budgeting act are disclosed as unfavorable variances on the combined statements of revenues, expenditures, and changes in fund balances - budget and actual - general, special revenue, capital projects, and debt retirement funds.
4. Any revisions that alter the total expenditures of any function must be approved by the Board of Education. During the year the District made budget amendments, which were not material to the original appropriation.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

## 2. Deposits and Investments

At June 30, 2005, the District had the following depository accounts. The District does not have a deposit or investment policy. The book value of the District's deposits, consisting primarily of interest bearing savings and checking accounts, was \$700,797. Of this amount, \$25,723 is trust and agency deposits.

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$200,000
Uninsured and uncollateralized	500,797
Total	<u>\$700,797</u>

Custodial risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$500,797 of the District's \$700,797 was exposed to custodial credit risk. The District has no investments other than funds placed in savings and checking accounts with high quality financial institutions.

## 3. Capital Assets

Governmental capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets:				
Land improvements	\$ 223,811	\$ —	\$ 64,822	\$ 158,989
Buildings	1,276,586	—	—	1,276,586
Vehicles	234,916	8,500	35,250	208,166
Machinery and equipment	542,976	—	37,710	505,266
Subtotal	2,278,289	8,500	137,782	2,149,007
Accumulated depreciation:				
Land improvements	129,463	6,967	64,822	71,608
Buildings	966,271	18,169	—	984,440
Vehicles	202,436	13,396	35,250	180,582
Machinery and equipment	389,812	43,597	33,130	400,279
Subtotal	1,687,982	82,129	133,202	1,636,909
Capital assets, net	<u>\$ 590,307</u>	<u>\$(73,629)</u>	<u>\$ (4,580)</u>	<u>\$ 512,098</u>

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**3. Capital Assets (continued)**

Depreciation expense was charged to activities as follows:

Governmental activities:	
Instruction	\$45,538
Support services	13,396
Food services	565
Athletics	5,193
Unallocated	17,437
Total governmental activities depreciation expense	<u>\$82,129</u>

**4. Long-Term Debt**

The District issues bonds to provide for the acquisition and construction of major capital facilities and acquisition of certain equipment. Other long-term obligations include amounts due to employees under contract for payment of unused sick leave and severance benefits.

During the 1976-1977 year, the District received approval of a \$1,675,000 general obligation bond issue payable in installments for 30 years through 2005 to use for erecting, furnishing, and equipping an addition to the high school; refurbishing, re-equipping, and remodeling the high school; and site development in the school district. The final payment of \$100,000 related to this debt was made in July 2005.

During the 1996-1997 year, the District issued energy improvement bonds in the amount of \$140,000 for providing energy improvements throughout the District. These bonds are to be paid in installments for 10 years through 2006.

During the 1999-2000 year, the District received approval of a \$450,000 general obligation bond issue payable in installments for 8 years through 2007 for replacing the gym floor, and acquiring and installing education technology improvements.

Long-term debt at June 30, 2005 is comprised of the following:

	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
1976 Bonded Debt	5.80%	2005	\$100,000
1996 Energy Improvement Bonds	5.35%	2006	15,000
1999 Bonded Debt	4.60%-4.90%	2007	150,000
Accumulated sick leave and severance			100,227
Total			<u><u>\$365,227</u></u>

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**4. Long-Term Debt (continued)**

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2005:

	<b><u>Accumulated Sick Leave/ Severance</u></b>	<b><u>1976 Bonded Debt</u></b>	<b><u>1999 Bonded Debt</u></b>	<b><u>1996 Energy Improvement Bonds</u></b>	<b><u>Combined Total</u></b>
Outstanding July 1, 2004	\$104,812	\$100,000	\$215,000	\$ 30,000	\$449,812
Principal payments	(4,585)	—	(65,000)	(15,000)	(84,585)
Other increases	—	—	—	—	—
Outstanding June 30, 2005	<u>\$100,227</u>	<u>\$100,000</u>	<u>\$150,000</u>	<u>\$ 15,000</u>	<u>\$365,227</u>

The annual requirements to amortize all debts outstanding (principal and interest) as of June 30, 2005 are:

<b><u>Fiscal Year Ending</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2006	\$190,000	\$10,978	\$200,978
2007	<u>75,000</u>	<u>3,675</u>	<u>78,675</u>
Subtotal	265,000	14,653	279,653
Accumulated sick leave and severance	<u>100,227</u>		<u>100,227</u>
Total	<u>\$365,227</u>	<u>\$14,653</u>	<u>\$379,880</u>

**5. Interfund Balances**

Interfund receivable and payable balances between funds at June 30, 2005 are as follows:

<b><u>Receivable Fund</u></b>	<b><u>Payable Fund</u></b>	<b><u>Amount</u></b>
General Fund	Special Revenue Fund	\$20,804
Special Revenue Fund	Trust and Agency Funds	<u>3,724</u>
		<u>\$24,528</u>

**6. Excess of Expenditures Over Amount Budgeted in Budgetary Funds**

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**6. Excess of Expenditures Over Amount Budgeted in Budgetary Funds (continued)**

During the year ended June 30, 2005, the District incurred expenditures in excess of the amounts appropriated in the General Fund:

<u>Fund</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund</b>			
Instructional Services:			
Basic Programs	\$623,133	\$639,290	\$(16,157)
Added Needs	252,738	253,347	(609)
Supporting Services:			
Executive Administration	99,898	134,452	(34,554)
Fiscal Services	17,613	22,117	(4,504)
Operation and Maintenance of Plant	230,480	239,350	(8,870)

**7. Employee Retirement System - Defined Benefit Plan**

Plan Description—The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and post-employment benefits for health, dental, and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees' Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1 of each year on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's

accumulated contribution plus interest, if any, are refundable.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Notes to Financial Statements (continued)

**7. Employee Retirement System - Defined Benefit Plan (continued)**

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2005 were 12.99% of payroll through September 30, 2004 and 14.87% effective October 1, 2004. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District's contributions to MPSERS for the years ended June 30, 2005, 2004, and 2003 were \$140,703, \$148,687, and \$174,835, respectively, equal to the required contribution for each year. The District is not responsible for the payment of retirement benefits as that is the responsibility of the State of Michigan.

Other Post-Employment Benefits

Under the MPSERS' Act, all retirees have the option of continuing health, dental, and vision coverage. These benefits are not included in the pension benefit obligation referred to above.

**8. Risk Management**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each risk pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any additional required special assessments.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

**9. Note Payable**

During the year ended June 30, 2005, the School District had a state aid note payable outstanding for \$250,000 with the Michigan Municipal Bond Authority, with a final maturity of August 19, 2005. The note payable is to be paid with the proceeds of the State Aid payment to be received in August, 2005. If the state aid payment received by the School District is less than the principal and interest due on the note on August 19, 2005, the note must be paid with other sources.

## Required Supplemental Information



Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

General Fund  
Budgetary Comparison Schedule

Year ended June 30, 2005

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget (Under)/Over</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Local sources	\$ 210,701	\$ 287,219	\$ 200,224	\$ (86,995)
Intermediate sources	-	-	6,952	6,952
State sources	1,497,827	1,583,661	1,587,911	4,250
Federal sources	172,850	136,254	124,223	(12,031)
Total revenues	1,881,378	2,007,134	1,919,310	(87,824)
<b>Expenditures</b>				
Instructional:				
Basic programs	662,763	623,133	639,290	16,157
Added needs	269,475	252,738	253,347	609
Employee benefits	419,013	415,389	390,883	(24,506)
Supporting services:				
Guidance	26,227	27,172	23,473	(3,699)
Executive administration	120,367	99,898	134,452	34,554
Board of education	4,000	36,729	10,790	(25,939)
School administration	64,210	71,998	70,401	(1,597)
Fiscal services	36,966	17,613	22,117	4,504
Operations and maintenance	241,875	252,480	239,350	(13,130)
Employee benefits	99,422	117,105	107,883	(9,222)
Pupil transportation services	90,212	91,986	91,888	(98)
Total expenditures	2,034,530	2,006,241	1,983,874	(22,367)
Excess (deficiency) of revenues over expenditures	(153,152)	893	(64,564)	(65,457)
<b>Other financing sources (uses)</b>				
Outgoing transfer - debt retirement fund	(675)	(17,280)	(16,605)	675
Outgoing transfer - athletics	-	(53,501)	(8,792)	44,709
Outgoing transfer - hot lunch	(37,402)	(4,026)	(23,406)	(19,380)
Total other financing sources (uses)	(38,077)	(74,807)	(48,803)	26,004
Deficiency of revenues and other financing sources over expenditures and other financing uses	(191,229)	(73,914)	(113,367)	(39,453)
Fund balance at beginning of year	503,365	503,365	503,365	-
Fund balance at end of year	\$ 312,136	\$ 429,451	\$ 389,998	\$ (39,453)

## Other Supplemental Information

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2005

	<b>Special Revenue Fund</b>	<b>Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 8,470	\$ 170,887	\$ 179,357
Due from other funds	3,724	-	3,724
Due from government	-	10,320	10,320
Inventory	1,488	-	1,488
Total assets	<u>\$ 13,682</u>	<u>\$ 181,207</u>	<u>\$ 194,889</u>
 <b>Liabilities and fund balance</b>			
Liabilities			
Due to other funds	\$ 20,804	\$ -	\$ 20,804
Total liabilities	<u>20,804</u>	<u>-</u>	<u>20,804</u>
 Total fund balances	<u>(7,122)</u>	<u>181,207</u>	<u>174,085</u>
 Total liabilities and fund balances	<u>\$ 13,682</u>	<u>\$ 181,207</u>	<u>\$ 194,889</u>

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2005

	<b>Special Revenue Fund</b>	<b>Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>
<b>Revenues</b>			
Local sources	\$ 45,232	\$ 85,821	\$ 131,053
State sources	7,893	-	7,893
Federal sources	58,606	-	58,606
Total revenues	<u>111,731</u>	<u>85,821</u>	<u>197,552</u>
<b>Expenditures</b>			
Food services	82,841	-	82,841
Athletics	68,167	-	68,167
School services	1,394	-	1,394
Debt service	-	95,048	95,048
Total expenditures	<u>152,402</u>	<u>95,048</u>	<u>247,450</u>
Excess of revenues over (under) expenditures:	(40,671)	(9,227)	(49,898)
Other financing sources (uses)	<u>26,595</u>	<u>16,605</u>	<u>43,200</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures and other financing uses	(14,076)	7,378	(6,698)
Fund balance at beginning of year	<u>6,954</u>	<u>173,829</u>	<u>180,783</u>
Fund balance at end of year	<u><u>\$ (7,122)</u></u>	<u><u>\$ 181,207</u></u>	<u><u>\$ 174,085</u></u>

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

General Fund  
Balance Sheets

June 30, 2005  
(with comparative totals for June 30, 2004)

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Petty cash	\$ 672	\$ 672
Cash in bank - commercial accounts	11,402	10,431
Cash in bank - payroll account	15,379	14,927
Cash in bank - savings	331,399	479,916
Investment in Michigan School District Asset Fund	130,097	127,700
Accounts receivable	-	6,150
Due from other funds	20,804	6,397
Due from other governmental entities	355,843	351,013
Total assets	<u>\$ 865,596</u>	<u>\$ 997,206</u>
<b>Liabilities and fund balance</b>		
Accounts payable	\$ 14,751	\$ 7,871
Note payable	250,000	250,000
Accrued interest	3,914	2,217
Accrued salaries and related taxes	183,397	211,533
Insurance payable	22,115	20,799
Deferred revenue	1,421	1,421
Total liabilities	<u>475,598</u>	<u>493,841</u>
Fund balance	<u>389,998</u>	<u>503,365</u>
Total liabilities and fund balance	<u>\$ 865,596</u>	<u>\$ 997,206</u>

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

General Fund  
Statements of Revenues, Expenditures and Changes in Fund Balance

Year ended June 30, 2005  
(with comparative totals for year ended June 30, 2004)

	Budget	Actual	
		2005	2004
<b>Revenues from local sources</b>			
Current tax levy		\$ 161,628	\$ 162,179
Interest on investments		8,425	3,584
Miscellaneous		30,171	72,342
Total revenues from local sources	\$ 287,219	200,224	238,105
<b>Revenues from state sources</b>			
State school aid		1,440,175	1,581,421
Driver education		2,072	1,607
At risk funds		53,799	51,956
Court placed pupils		(672)	(8,271)
Gifted funding		34	-
Michigan school readiness		39,600	39,600
School lunch funds		8,387	-
Special education		44,319	-
Renaissance zone		197	-
Total revenues from state sources	1,583,661	1,587,911	1,666,313
<b>Revenue from intermediate sources</b>			
Bus driver safety		695	-
Medicaid outreach		637	-
Medicaid service coordination		5,620	10,305
Total revenue from interemediate sources	-	6,952	10,305
<b>Revenues from federal sources</b>			
Title II part D		2,748	627
REAP		5,276	2,851
Title I		79,977	100,041
Title V		3,010	-
Title VI		-	2,866
Class size reduction		25,669	18,233
Class size reduction-carryover		7,543	-
Drug free grant		-	785
Raise grant		-	5,000
Tech literacy challenge		-	2,347
Urgent school repairs		-	(663)
EDP mini-grant		-	837
Total revenues from federal sources	136,254	124,223	132,924
Total revenues	2,007,134	1,919,310	2,047,647
<b>Expenditures</b>			
Instruction	1,291,260	1,283,520	1,295,489
Supporting services	714,981	700,354	719,645
Total expenditures	2,006,241	1,983,874	2,015,134
Excess of expenditures over (under) revenues	893	(64,564)	32,513
<b>Other financing sources (uses)</b>			
Gifted program grant (Huron ISD)		-	151
Outgoing transfer - food service (net of transfer in)	(4,026)	(23,406)	(17,408)
Outgoing transfer - athletics	(53,501)	(8,792)	-
Incoming transfer - 76 debt retirement	-	675	-
Outgoing transfer - energy conservation debt retirement	(17,005)	(17,005)	-
Outgoing transfer - 99 debt retirement	(275)	(275)	(275)
Outgoing transfer - HISD	-	-	(400)
Total financing sources	(74,807)	(48,803)	(17,932)
Excess of expenditures and other financing uses over (under) revenues and other financial sources	(73,914)	(113,367)	14,581
Fund balance at beginning of year	503,365	503,365	430,866
Fund balance adjustment	-	-	57,918
Fund balance at end of year	\$ 429,451	\$ 389,998	\$ 503,365

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

General Fund  
Detail of Expenditures and Other Financing Uses

Year ended June 30, 2005  
(with comparative totals for year ended June 30, 2004)

Instruction	Budget	Actual	
		2005	2004
Basic programs:			
Elementary grades:			
Salaries - teachers		\$ 229,465	\$ 225,539
Salaries - substitute teachers		4,416	3,245
Salary - crossing guard		-	591
Travel		-	636
Computer supplies and software		-	1,215
Early retirement incentive		6,841	-
Instructional services		899	-
Teaching supplies		4,568	4,196
Periodicals		-	121
Audio-visual		637	838
Curriculum committee expense		1,291	1,283
Capital outlay		-	377
Miscellaneous supplies and expense		461	133
Total elementary grades	\$ 246,554	248,578	238,174
Secondary grades:			
Salaries - teachers		336,750	336,271
Salary - athletics and extra curricular		-	52,430
Salaries - substitute teachers		6,896	6,372
Salaries - drivers education		2,884	3,763
HS aide		-	-
Travel		47	99
Computer supplies		-	1,451
Teaching supplies		1,246	4,129
Athletic supplies		-	6,686
Band supplies		2,361	3,852
Textbooks		1,388	2,231
HS board paid TSA		4,859	-
Periodicals		496	612
Professional extra curricular		14,548	-
Early retirement incentives		6,850	-
HS dual enrollment tuition		5,500	-
Equipment purchases		1,328	-
Instructional dues and fees		991	-
Audio-visual		-	928
Quest		-	1,726
Library		-	4
Title V		2,547	-
Title VI		674	2,971
School improvements		-	-
Curriculum committee expense		1,291	1,283
Miscellaneous supplies and expense		56	778
Total secondary grades	376,579	390,712	425,586
Total basic programs	623,133	639,290	663,760
Added needs:			
Special Education:			
Salaries - teachers		91,014	87,282
Salaries - substitute teachers		6,466	2,884
Travel		-	193
Service coordination		3,437	-
Career prep		-	-
Teaching supplies		3,396	578
Total special education	99,539	104,313	90,937

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

General Fund  
Detail of Expenditures and Other Financing Uses (continued)

Year ended June 30, 2005  
(with comparative totals for year ended June 30, 2004)

	Budget	Actual	
		2005	2004
<b>Instruction (continued)</b>			
Added needs (continued):			
Compensatory education:			
Salary - teachers		\$ 45,188	\$ 44,805
Salary - aides		12,569	27,015
Drug free fund		-	361
Workshops and conferences		1,004	1,283
Teaching supplies		620	498
Total compensatory education	\$ 63,093	59,381	73,962
Preschool	39,600	38,541	39,600
Class size reduction:			
Salary		-	11,146
Other		(174)	4,530
Total class size reduction	-	(174)	15,676
At-risk:			
Salaries		45,200	41,555
Teaching supplies		-	849
Miscellaneous		810	770
Total at-risk	42,648	46,010	43,174
REAP:			
Professional development		5,276	2,850
Total REAP	7,858	5,276	2,850
Other added needs:			
Medicaid service coordination		-	4,984
Detroit Edison grant		-	513
Career & preparation systems		-	837
Total other added needs	-	-	6,334
Total added needs	252,738	253,347	272,533
Employee benefits	415,389	390,883	359,198
Total instruction	1,291,260	1,283,520	1,295,491
<b>Supporting services</b>			
Guidance:			
Salary - counselor		20,703	25,727
Supplies		2,770	166
Travel		-	-
Total guidance	27,172	23,473	25,893
Board of education:			
Salaries		5,400	4,178
Workshops		5,390	255
Total board of education	36,729	10,790	4,433
Executive administration:			
Salary - superintendent		63,180	55,055
Salary - clerical		19,499	31,487
TSA fringe - superintendent		10,000	-
Legal		11,198	3,140
Audit		13,700	9,900
Elections		1,354	1,625



Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

General Fund  
Detail of Expenditures and Other Financing Uses (continued)

Year ended June 30, 2005  
(with comparative totals for year ended June 30, 2004)

	Budget	Actual	
		2005	2004
<b>Supporting services (continued)</b>			
Executive administration (continued)			
Membership dues		\$ 4,921	\$ 4,363
Consulting services		460	-
Telephone		308	-
Travel		3,640	3,319
Printing and publication		1,654	2,145
Supplies		1,325	2,218
Conferences and workshops		180	90
Dues and fees		2,300	-
Miscellaneous expense		733	826
Total executive administration	\$ 99,898	134,452	114,168
School administration:			
Salaries - principals		12,107	32,435
Salaries - clerical		51,133	61,017
Substitute secretary		-	135
Other technology services		100	-
Telephone		1,982	-
Travel		-	127
Supplies		4,391	3,507
Miscellaneous		64	-
Equipment		624	-
Membership dues		-	515
Total school administration	71,998	70,401	97,736
Fiscal services:			
Workmen's compensation insurance		492	1,899
Bookkeeper		12,754	-
Telephone		197	-
Office supply		296	-
Insurance - errors and omissions		3,595	-
Insurance - bond and other		1,211	-
Taxes abated and written off		233	-
Life insurance		-	10
Public liability insurance		-	2,620
Building insurance		-	11,924
Issuance of loan		-	986
Interest on state aid loan		3,914	2,217
Bonds		-	184
Miscellaneous expense		(575)	(198)
Total fiscal services	17,613	22,117	19,642
Operation and maintenance of plant:			
Salaries - custodians		74,823	90,118
Travel		87	35
Professional services		201	-
Workmen's compensation insurance		103	-
Telephone		(427)	14,423
Heating fuel		33,967	34,670
Conferences		75	200
Electricity		40,213	40,841

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

General Fund  
Detail of Expenditures and Other Financing Uses (continued)

Year ended June 30, 2005  
(with comparative totals for year ended June 30, 2004)

	Budget	Actual	
		2005	2004
<b>Supporting services (continued)</b>			
Operation and maintenance of plant (continued):			
Water and sewage		\$ 4,963	\$ 5,943
Other utility services		4,580	-
Operations - vehicle		297	-
Trash disposal		3,256	3,524
Insurance - property		13,539	-
Repairs and maintenance		24,586	31,842
Computer repairs		21,781	6,820
Supplies		8,397	10,206
Capital outlay		7,752	13,595
Miscellaneous expense		1,157	121
Total operation and maintenance of plant	\$ 230,480	239,350	252,338
Urgent school repairs grant	-	-	(2,612)
Pupil transportation services:			
Salaries - drivers		39,786	42,051
Salaries - secretary		3,413	-
Travel		951	5
Contracted carrier		3,213	-
Pupil transport		-	1,474
Insurance		2,861	3,261
Gasoline, oil, and grease		12,508	9,763
Tires, tubes, and batteries		1,974	1,458
Vehicle repair parts		17,335	21,757
Telephone		360	-
Capital outlay		8,613	20,590
Miscellaneous expense		874	3,827
Total pupil transportation services	91,986	91,888	104,186
Technology	22,000	21,781	-
Employee benefits	117,105	107,883	103,864
Total supporting services	714,981	700,354	719,648
Total expenditures	2,006,241	1,983,874	2,015,139
<b>Other financing uses</b>			
Outgoing transfers - 99 debt retirement fund	275	275	17,408
Outgoing transfers - energy conversation	17,005	16,330	675
Outgoing transfers - athletics	53,501	8,792	-
Outgoing transfers - food service	4,026	23,406	-
Total other financing uses	74,807	48,803	18,083
Total expenditures and other financing uses	\$ 2,081,048	\$ 2,032,677	\$ 2,033,222

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan  
Special Revenue Funds  
Balance Sheets

June 30, 2005  
(with comparative totals for June 30, 2004)

	<b>Actual</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Cash in bank - food service commercial account	\$ 8,470	\$ 8,543
Inventory	1,488	2,477
Due from trust and agency fund	3,724	2,331
Total assets	<u>\$ 13,682</u>	<u>\$ 13,351</u>
<b>Liabilities and fund balance</b>		
Deferred revenue	\$ -	\$ -
Due to general fund	20,804	6,397
Total liabilities	<u>20,804</u>	<u>6,397</u>
Fund balance	(7,122)	6,954
Total liabilities and fund balance	<u>\$ 13,682</u>	<u>\$ 13,351</u>

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan  
Special Revenue Funds  
Statements of Revenues, Expenditures and Changes in Fund Balance  
Year ended June 30, 2005  
(with comparative totals for year ended June 30, 2004)

<b>Revenues</b>	<b>Budget</b>	<b>Actual</b>	
		<b>2005</b>	<b>2004</b>
Revenues from local sources (food service):			
Sales of student lunches and breakfast		\$ 18,479	\$ 20,062
Sales of adult lunches and breakfast		3,491	6,082
Snack sales		6,090	7,354
Interest		15	18
Total revenues from local sources	\$ 31,934	28,075	33,516
Revenues from state sources	4,122	7,893	6,990
Revenues from federal sources:			
National school lunch aid		50,591	49,056
National school commodity revenue		8,015	7,232
Total revenues from federal sources	56,591	58,606	56,288
Revenues from athletics	16,239	16,023	17,569
Revenues from bookstore	-	-	37
Revenues from principals	855	543	1,888
Revenues from school board	592	591	4,382
Total revenues	110,333	111,731	120,670
<b>Expenditures</b>			
Food service:			
Salaries	35,640	35,640	39,659
Food and milk	39,797	37,644	45,441
Employee benefits	7,976	7,976	7,803
Supplies and other costs	-	1,581	2,348
Total expenditures	83,413	82,841	95,251
Athletics	70,771	68,167	18,065
Principals	962	817	2,485
School board	577	577	3,149
Total expenditures	155,723	152,402	118,950
Excess of expenditures over revenues	(45,390)	(40,671)	1,720
Other financing sources:			
Operating transfers in - general fund	57,527	26,595	-
Excess of expenditures over (under) revenues and other financing sources	12,137	(14,076)	1,720
Fund balance at beginning of year	6,954	6,954	5,234
Fund balance at end of year	\$ 19,091	\$ (7,122)	\$ 6,954

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Debt Retirement Funds  
Combined Balance Sheets

June 30, 2005  
(with comparative totals for June 30, 2004)

	<b>Actual</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Cash in bank - commercial accounts	\$ 170,887	\$ 173,829
Taxes receivable	10,320	-
Total assets	<u>\$ 181,207</u>	<u>\$ 173,829</u>
<b>Liabilities and fund balance</b>		
Fund balance	\$ 181,207	\$ 173,829
Total liabilities and fund balance	<u>\$ 181,207</u>	<u>\$ 173,829</u>

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Debt Retirement Funds  
Combining Statements of Revenues, Expenditures and Changes in Fund Balance

Year ended June 30, 2005  
(with comparative totals for year ended June 30, 2004)

	<b>Budget</b>	<b>1976 Issue</b>	<b>1996 Energy Conservation Bonds</b>	<b>1999 Issue</b>	<b>Actual</b>	
					<b>2005</b>	<b>2004</b>
<b>Revenues from local sources</b>						
Current tax levy	\$ -	\$ -	\$ -	\$ 84,080	\$ 84,080	\$ 65,491
Interest on investments	1,703	1,741	-	-	1,741	1,334
Delinquent taxes	-	-	-	-	-	5,143
Total revenues	1,703	1,741	-	84,080	85,821	71,968
<b>Expenditures</b>						
Debt service:						
Redemption of bonds	100,000	-	15,000	65,000	80,000	170,000
Interest on bonded debt	5,800	2,900	1,605	10,330	14,835	26,868
Paying agent's fees	403	213	-	-	213	400
Total expenditures	106,203	3,113	16,605	75,330	95,048	197,268
Excess of revenues over (under) expenditures	(104,500)	(1,372)	(16,605)	8,750	(9,227)	(125,300)
Other financing sources:						
Incoming transfer - general fund	-	-	16,605	-	16,605	17,408
Excess of revenues and other financing sources over (under) expenditures	(104,500)	(1,372)	-	8,750	7,378	(107,892)
Fund balance at beginning of year	173,829	120,671	28	53,130	173,829	281,721
Fund balance at end of year	<u>\$ 69,329</u>	<u>\$ 119,299</u>	<u>\$ 28</u>	<u>\$ 61,880</u>	<u>\$ 181,207</u>	<u>\$ 173,829</u>

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Internal Accounts  
Summary of Cash Receipts and Cash Disbursements

Year ended June 30, 2005

	<u>Balance</u> <u>June 30, 2004</u>	<u>Cash</u> <u>Receipts</u>	<u>Cash</u> <u>Disbursements</u>	<u>Balance</u> <u>June 30, 2005</u>
<b>Special revenue funds</b>				
Athletics	\$ 10.69	\$ 16,022.90	\$ 14,371.14	\$ 1,662.45
Bookstore	320.74	-	-	320.74
Owendale School Board	1,800.07	591.55	576.55	1,815.07
Principals	199.39	543.07	816.67	(74.21)
Total special revenue funds	<u>2,330.89</u>	<u>17,157.52</u>	<u>15,764.36</u>	<u>3,724.05</u>
<b>All other student groups</b>				
Class of 2005	3,480.19	40.00	3,686.19	(166.00)
Class of 2006	1,813.99	14,559.70	10,110.81	6,262.88
Class of 2007	514.78	2,564.00	53.12	3,025.66
Class of 2008	610.65	402.00	95.12	917.53
Class of 2009	412.15	953.55	42.90	1,322.80
Class of 2010	241.50	301.30	12.54	530.26
Class of 2011	-	94.50	-	94.50
Class of 2005 - quilt	16.37	-	-	16.37
Business Professionals of America	(3.85)	-	-	(3.85)
Elementary	1,498.68	14,564.44	14,251.42	1,811.70
Band	2,623.74	10,313.01	8,872.97	4,063.78
Athletic donations	1,020.53	380.00	35.00	1,365.53
Cheerleading	93.13	80.40	98.12	75.41
Spanish club	248.55	329.75	495.00	83.30
Miscellaneous	1,243.52	5,503.15	6,882.26	(135.59)
Interest	335.83	43.20	-	379.03
Yearbook	1,566.88	9,955.50	10,962.12	560.26
Student council	413.38	1,086.85	1,352.73	147.50
Drama	1,849.62	508.25	495.35	1,862.52
RR store account	163.24	784.69	1,253.56	(305.63)
National honor society	(13.94)	817.95	713.51	90.50
Total all other student groups	<u>\$ 18,128.94</u>	<u>\$ 63,282.24</u>	<u>\$ 59,412.72</u>	<u>\$ 21,998.46</u>

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Internal Accounts  
Recap by Fund

Year ended June 30, 2005

	<b>Balance June 30, 2004</b>	<b>Cash Receipts</b>	<b>Cash Disbursements</b>	<b>Balance June 30, 2005</b>
<b>Special Revenue Funds</b>				
Athletics	\$ 10.69	\$ 16,022.90	\$ 14,371.14	\$ 1,662.45
Bookstore	320.74	-	-	320.74
Owendale School Board	1,800.07	591.55	576.55	1,815.07
Principals	199.39	543.07	816.67	(74.21)
Total special revenue funds	<u>\$ 2,330.89</u>	<u>\$ 17,157.52</u>	<u>\$ 15,764.36</u>	<u>\$ 3,724.05</u>
<b>Trust and Agency Funds</b>				
All other	<u>\$ 18,128.94</u>	<u>\$ 63,282.24</u>	<u>\$ 59,412.72</u>	<u>\$ 21,998.46</u>



Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Schedule of 1976 Bonded Debt

June 30, 2005

Purpose of issue: Erecting, furnishing and equipping an addition to the high school; refurnishing, re-equipping, and remodeling the high school; and site development in the School District.

<b>Bond Numbers</b>	<b>Due Date</b>	<b>Principal</b>	<b>Interest Rate</b>	<b>Interest Due</b>	<b>Payment Due</b>
316-335	7-01-2005	<u>\$ 100,000.00</u>	5.80%	<u>\$ 2,900.00</u>	<u>\$ 102,900.00</u>
		<u>\$ 100,000.00</u>		<u>\$ 2,900.00</u>	<u>\$ 102,900.00</u>

Bonds maturing prior to the year 1996 will not be subject to redemption prior to maturity. Bonds maturing in the years 1996 through 2005 will be subject to redemption prior to maturity, at the option of the School District, in the years 1996 through 2005 will be subject to redemption prior to maturity, at the option of the School District, in inverse numerical order, on any one or more interest payment dates on and after July 1, 1995. Provided, however, that the School District may call for redemption, in inverse numerical order, any of said callable bonds which bear interest at a higher rate before calling bonds bearing interest at a lower rate. Bonds called for redemption shall be redeemed at par value thereof and accrued interest to the date fixed for redemption, plus a premium on each bond in accordance with the following schedule:

2% on each bond called for redemption on or after July 1, 1998, but prior to July 1, 2003;

1% on each bond called for redemption on or after July 1, 2003, but prior to July 1, 2005.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan  
Schedule of 1996 Energy Conservation Improvement Bonds

June 30, 2005

Purpose of issue: Providing energy conservation improvements to school facilities.

<u>Maturity</u>	<u>Due Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest Due</u>	<u>Payment Due</u>
	11-01-2005			\$ 401.25	\$ 401.25
1	05-01-2006	\$ 15,000.00	5.35%	401.25	15,401.25
		<u>\$ 15,000.00</u>		<u>\$ 802.50</u>	<u>\$ 15,802.50</u>

Bonds are not subject to redemption prior to maturity.

Owendale-Gagetown Area School District  
Huron and Tuscola Counties, Michigan

Schedule of 1999 Bonded Debt

June 30, 2005

Purpose of issue: Replacing the gym floor; and acquiring and installing educational technology improvements.

<u>Bond Numbers</u>	<u>Due Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest Due</u>	<u>Payment Due</u>
	11-01-2005			\$ 3,637.50	\$ 3,637.50
1	05-01-2006	\$ 75,000.00	4.80%	3,637.50	78,637.50
	11-01-2006			1,837.50	1,837.50
2	05-01-2007	75,000.00	4.90%	1,837.50	76,837.50
		<u>\$ 150,000.00</u>		<u>\$ 10,950.00</u>	<u>\$ 160,950.00</u>

Bonds are not subject to redemption prior to maturity.



Report on Compliance and Internal Control Over Financial Reporting  
Based on an Audit of General Purpose Financial Statements Performed  
in Accordance with *Government Auditing Standards*

Board of Education  
Owendale-Gagetown Area School District  
Owendale and Gagetown, Michigan

We have audited the financial statements of the Owendale-Gagetown Area School District as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Owendale-Gagetown Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owendale-Gagetown Area School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Owendale-Gagetown Area School District in a separate letter dated August 19, 2005.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Andrews Hooper & Pavlik P.L.C.*

Bay City, Michigan  
August 19, 2005



To the Board of Education  
Owendale-Gagetown Area School District  
Owendale and Gagetown, Michigan

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of Owendale-Gagetown Area School District for the year ended June 30, 2005, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

The attached suggestions are submitted to assist in improving procedures and controls.

This report is intended solely for the information and use of Owendale-Gagetown Area School District's Board of Education and others within the administration, and is not intended to be and should not be used by anyone other than those specified parties.

*Andrews Hooper & Pavlik P.L.C.*

Bay City, Michigan  
August 19, 2005

## Comments and Recommendations

### Internal Control and Segregation of Duties

One of the key features of a strong internal control structure is adequate separation of duties as they relate to functions that are generally considered incompatible. The basic premise is that no one employee should have access to both the physical assets and the relating accounting records or to all phases of the transaction. However, we recognize that the limited number of staff in smaller municipalities often prohibits an optimum, cost-effective separation of duties. Although the size of the District's staff limits the extent of separation of duties, we believe certain steps could be taken to strengthen internal control.

- **Journal Entries**

During the course of our audit, we noted that one employee is responsible for the creation of all journal entries as well as the reconciliation of all bank statements. We noted in the current year that internal controls have been implemented whereby a source of review is performed on journal entries and bank statements. We encourage that this process continue and that the Superintendent review all journal entries not approved by the School Board and periodically inspect bank statements.

### General Ledger

During the course of the audit, we noted that all transactions in the non-major funds are not recorded in the general ledger software. We noted that a process is being implemented, which would record all transactions in the general ledger software. This will allow easier submission of the electronic version of the financial statements, which is required to be submitted on a yearly basis via the FID (financial information database). We encourage that this implementation continue and be finalized during the year ended June 30, 2006.